Amendment in the Nature of a Substitute to the Committee Print

Offered by M. ________________

Strike all after the preamble and insert the following new text:

Overview

In recent testimony before the Committee, Federal Reserve Board Chairman Alan Greenspan hailed the past decade as "extraordinary for the American economy and monetary policy." The Committee concurs in the Chairman's assessment and ascribes that success in part to the critical role that the financial services sector has played in the nation's stellar economic performance. The enactment of the Gramm-Leach-Bliley (GLB) Act during the last Congress laid the foundation for a new financial and monetary architecture, now reflected in the expanded jurisdiction of this new Committee, that will help sustain the nation's domestic economic health and ensure the competitiveness of U.S. financial service providers in the global marketplace.

Today, despite recent signs of an economic slowdown, the nation faces the prospect of unprecedented Federal surpluses for years to come. How the Congress and the Administration handle those surpluses has significant ramifications for monetary policy, which this Committee has a duty to oversee. The Committee commends the President for his commitment to use such surpluses to retire Federal debt as it matures. Achieving that goal will bring remaining debt in 2011 down to its lowest share in over 80 years.

According to the Administration's budget analysis, excess cash balances—that is, surpluses exceeding maturing debt—could overwhelm the capacity of the Federal Reserve or other depositories, thus raising the prospect that the Federal government would be forced to invest in private assets in the financial markets, an outcome the Committee finds to be an unacceptable Federal intrusion into the marketplace. Therefore, tax relief for working Americans is an important budget priority.

Because the Federal budget surplus has significant bearing on monetary policy and the health of the economy, the Committee has considered that factor in its analysis of the President's budget proposals under its jurisdiction.

In that connection, the Committee endorses the Administration's emphasis on compassionate conservatism and supports the proposed increase in funding for effective programs under the Department of Housing and Urban Development (HUD). At a time of surpluses, the Committee believes the nation should share its prosperity with those who face hardship and poverty. The Committee notes, in that regard, that the Administration calls for increased resources for affordable housing and homeownership programs under the jurisdiction of this Committee, including those serving low-income families and individuals with special needs, such as those living with HIV/AIDS.

The Committee is also cognizant of the fact that our economy does not stand alone. In this era of globalization, the U.S. economy is deeply intertwined with the economies of our trading partners. Hence the Committee endorses the Administration's support for funding U.S. commitments to the Multilateral Development Banks.

Details of the Committee views and estimates on the FY 2002 budget follow.

SECURITIES AND EXCHANGE COMMISSION FEES

The Committee intends to address the question of whether the fees have evolved into an unintended and burdensome tax on Americans who own equities directly or indirectly, such as through a mutual fund, pension fund, or 401(k). The Committee also intends to address whether fees add to the cost of capital Formation, impeding job creation and economic growth.

Finally, the Committee intends to consider whether, in order to strengthen the SEC and ensure an adequate revenue stream in the future, the pay of SEC employees should be equal to employees of other financial regulators.

INTEREST ON BUSINESS CHECKING ACCOUNTS

The Committee intends to take legislation to the House Floor to repeal the prohibition against depository institutions paying interest on business checking accounts but expects the legislation to have little effect on the FY 2002 Federal budget.

Much like the restrictions imposed by the Glass-Steagall Act, recently amended in the Gramm-Leach-Bliley Act, the prohibition on paying interest on business demand deposits is a Depression-era law founded on the concern that the nation's larger banks might use interest payments to lure deposits away from small, rural banks in order to finance stock market speculation. That concern, whether or not initially justified, is no longer applicable in today's competitive financial market place, and the ban on interest has become a burden particularly for small banks and small businesses. Although large, sophisticated business depositors have found alternative ways to minimize their holdings in non-interest bearing accounts — e.g. through the use of "sweep" programs whereby deposits in such accounts are regularly transferred into money market funds or other interest bearing vehicles — smaller business depositors have been unable to avail themselves of such opportunities.

During 2000, the House voted twice to repeal the ban on interest on business checking accounts, once in a voice vote approving a freestanding bill (H.R. 4067) and again as part of a larger tax relief bill (H.R. 2614). Neither measure was enacted into law. Clearly, legislation to repeal the ban is long overdue. The initiative enjoys the support of the Federal Reserve and would finally allow depository institutions full flexibility to price their services as necessary to respond to a highly competitive financial marketplace. Since the CBO estimate for H.R. 4067 in the last Congress indicated that the initiative would have insignificant impact on Federal revenues and outlays, the Committee expects no budget impact from similar legislation this Congress.

INTEREST ON STERILE RESERVES

The Committee intends to consider legislation to authorize the payment of interest on the statutorily required reserves that financial institutions hold at Federal Reserve Banks, but expects the measure to have little or no budget impact.

Under the Federal Reserve Act, banks, thrifts, and credit unions are required to maintain reserves at Federal Reserve Banks based on the volume of transaction accounts (e.g., checking accounts, etc.) that they hold. Because institutions receive no interest on such reserves, those reserves have come to be known as "sterile reserves" and financial institutions have found ways to minimize their reserve requirements, chiefly through "sweep" programs that permit funds to be transferred out of reserveable transaction accounts into nonreservable instruments (e.g., money market deposit accounts) at the end of each day. The result has been that reserve balances at the Federal Reserve banks have declined dramatically in recent years, falling from approximately $28 billion in 1993 to approximately $6 billion in 2000.

According to the Federal Reserve, the decline in reserves is of concern since reserves play an important role as a tool of monetary policy. Hence, the Federal Reserve strongly supports legislation to permit it to pay interest on reserves. Such legislation (H.R. 4209) was reported by the former Committee on Banking and Financial Services during the last Congress but did not reach the House Floor for consideration. According to the CBO estimate prepared for the bill, the payment of interest by the Fed on statutorily required and excess reserves would cost approximately $600 million over 5 years (FY2001-2005). However, because H.R. 4209 offset the 5-year cost by mandating the transfer of an equal amount of Federal Reserve surplus funds to the U.S. Treasury, CBO deemed the legislation to be effectively budget neutral. If budget offsets are not found for subsequent years (2006-2010), the legislation could result in significant revenue losses to the Treasury.

The Committee intends to take a legislative approach this Congress similar to that contained in H.R. 4209, and therefore expects FY 2002 costs for payment of interest on sterile reserves to be negligible.

HOUSING AND COMMUNITY OPPORTUNITY

The Administration proposes $30.4 billion in FY 2002 budget authority for the Department of Housing and Urban Development (HUD), an increase of 7 percent over the $28.5 billion provided in the FY 2001 HUD budget. The Committee is pleased that the proposed budget maintains funding for the Department's core programs and increases resources in other programs recognized for their effectiveness, such as tenant-based vouchers. In addition, the Committee is pleased that the Administration will pursue initiatives to help low- and moderate-income Americans achieve the dream of homeownership. Where the Administration has proposed program reductions or has redirected funding, the Committee notes that these are in areas that are generally duplicative of other government programs. Appropriately, the Administration offers specific program changes to minimize any potential adverse impact from such funding adjustments.

The Committee applauds the Administration's proposed increase in the number of Section 8 housing vouchers to assist an additional 34,000 low-income families with their monthly rental payments. As a result of increasing rental costs in many communities, more and more families are finding it difficult to obtain affordable housing. The Committee is cognizant of the importance of this issue to working families, and will, through a series of hearings on affordable housing and other activities, actively address the sources of the affordable housing problem and identify appropriate solutions. The Administration's proposal to provide additional incremental vouchers is also a positive step. In addition, the Committee intends to work with HUD to develop legislative changes that could enhance the operation of existing housing programs so that more families can be served. Improvements and enhancements to the Section 8 program, for example, could bolster continued participation by existing landlords and encourage new landlords to participate.

The Committee is pleased that the Administration's budget identifies a range of resources that can be used to increase homeownership opportunities for many Americans. While the national homeownership rate has steadily risen and is at an all-time high of approximately 67 percent, there are sectors of the population for whom homeownership remains unattainable. In the African American and Hispanic American communities, for example, homeownership rates hover at approximately 46 percent. Clearly, more can and should be done to help all of our citizens realize the dream of owning a home. Toward this end, the Administration's budget proposes a "Down Payment Assistance Initiative" that would set aside $200 million in FY 2002 to match – at a rate of up to $1,500 per family – the downpayment assistance provided to families by third parties. The funds would be administered by State housing finance agencies, and would assist over 130,000 first-time low-income homebuyers each year. In addition, the Administration is proposing a new hybrid adjustable-rate mortgage, along with tax incentives in the area of savings and rehabilitation and construction, to expand homeownership. The Committee believes these efforts to increase homeownership for all

Americans, including those with lower incomes, are laudable and expects to work closely with the Administration to develop appropriate authorizing legislation.

The Committee supports other initiatives included in the Administration's FY 2002 HUD budget, including the "Community Technology Centers Initiative," which enhances the Department's Neighborhood Networks program by providing $80 million to help high poverty urban communities create or expand technology centers. In addition, the Committee supports the use of $20 million in Community Development Block Grant funding for an "Improving Access Initiative" to help religious and civic organizations with limited resources make their facilities accessible to the disabled.

In terms of redirecting existing resources, the Administration proposes elimination of the Public Housing Drug Elimination program because of its limited impact. In its place, the Administration proposes an increase in the operating subsidies available to public housing authorities and greater flexibility to use these funds in anti-crime and security efforts. The Committee will review the effect of these proposals to ensure that ongoing anti-crime efforts, where they are effective, are not undermined.

Like its predecessor, the Committee retains jurisdiction over the Federal Emergency Management Agency's National Flood Insurance Program (NFIP). During the last Congress, the Committee held hearings on the problem of repetitive loss properties (buildings that flood regularly because of their location) and the threat such properties pose to the ability of the NFIP to meet obligations to policy holders without drawing on taxpayer funds. Repetitive loss properties cost the NFIP approximately $250 million each year. The Committee commends the Administration's efforts to address this issue in the FY 2002 budget by proposing the elimination of insurance for such properties.

At the same time, the Committee is mindful that any legislative remedy to the repetitive loss problem will need to take into consideration the following: (1) The needs of low-income communities that sustain uninsured losses and are financially unable to relocate; (2) Properties not in the 100 year flood plain that experience repetitive losses due to upstream or downstream development that occurred after the properties were constructed; (3) Historically significant communities built before the 100 year flood plains were mapped and whose relocation and/or mitigation would destroy or otherwise diminish their historical value; (4) The degree to which raising premiums for pre-FIRM properties may reduce enrollment in the National Flood Insurance Program, thereby exposing the federal government to greater losses; (5) The economic consequences to an individual who acquired property in good faith and without fault, whose property is defined as a "repetitive loss" property and take such action which will result in no diminishing in value of the property without just compensation, and (6) Recognition that flood insurance rate maps are out-of-date and require significant revision.

In the area of rural housing programs, the Administration proposes to eliminate a rural housing and economic development program (and office) at HUD that largely overlaps and duplicates similar programs at the Department of Agriculture. In its place, the Administration proposes funding for an additional 57,000 affordable housing units through the Rural Housing Service at the U.S. Department of Agriculture. The Committee concurs with the Administration's decision to rely, where possible, on the leverage of public and private resources in the single-family and multi-family programs to provide affordable housing as well as maximize the taxpayer's investment.

BANK AND BANK HOLDING COMPANY EXAMINATION FEES

As in past years, the Administration's budget proposal contemplates the imposition of new examination fees on banks and bank holding companies in order to raise additional Federal revenues. The net cost to banks and bank holding companies in FY 2002 is estimated at $162 million and, over the next five years (FY 2002 – FY 2006), at $892 million – nearly a billion dollars.

Under the proposal, the Federal Deposit Insurance Corporation (FDIC) would be required to impose new exam fees on State-chartered banks that are not members of the Federal Reserve System (so-called State non-member banks), and the Federal Reserve (Fed) would be required to impose exam fees on State-chartered banks that are members of the Federal Reserve System (so-called State member banks), as well as on bank holding companies. Neither the Fed nor the FDIC has expressed support for the initiative, and a bipartisan majority of the former Committee of jurisdiction repeatedly rejected similar proposals in past years.

There are several reasons why the exam fee proposal should be rejected. State non-member banks already pay significant exam fees to their State chartering authorities. The costs of their FDIC exams are covered by the Bank Insurance Fund (BIF) which was built from insurance premiums and accumulated earnings, and is fully capitalized. For State member banks, the cost of Fed exams are covered by the fees banks pay for various services provided by the Fed and by the banks' placement of non-interest earning reserves with the Federal Reserve System.

Raising exam fees on State-chartered banks could increase operating costs and the cost of credit for individual consumers and businesses. In addition, new exam fees would disproportionately affect smaller banks which constitute a substantial portion of the nation's State-chartered depository institutions and serve a critical role in meeting the credit needs of small businesses and farmers. Such fees could also undermine the nation's historical, dual banking system by enhancing the advantages of nationally-chartered banks at the expense of State-chartered banks. For example, State-supervised institutions might abandon their State charters in favor of a national bank charter in order to avoid double exam fees. The result could be an increase in banking assets under the umbrella of the Office of the Comptroller of the Currency (OCC) at the Department of the Treasury.

The proposal to impose fees on bank holding companies is also inconsistent with the Gramm-Leach-Bliley Act which repealed the Fed's authority to assess such fees. Even if the Fed had retained such authority, imposing exam fees on a bank holding company is contrary to the principle of functional regulation incorporated into GLB. Since the principal assets of bank holding companies are their subsidiary banks, the Fed's exams of such companies rely chiefly on the exam reports of the subsidiary banks already prepared by Federal and State examiners. Further, under GLB, the Fed is directed to rely on the reports of the functional regulator of any non-bank subsidiary of the holding company to the fullest extent possible.

In sum, the Committee opposes the examination fee proposal presented by the Administration as unnecessary and burdensome.

COMMUNITY DEVELOPMENT FINANCIAL INSTITUTIONS FUND

The President's budget blueprint indicates that the Treasury Department will continue its efforts to promote financial services in low-income communities through the Community Development Financial Institutions (CDFI) Fund program, which will be in charge of administering the tax credit authorized in the Community Renewal Act of 2000, and the Electronic Transfer Accounts initiative. However, the blueprint points out that the support for CDFI will be reduced by some unspecified amount to levels below the FY 2001 appropriation of $118 million. Once the Administration's final budget is received, the Committee will review whether the proposed funding level for CDFI is sufficient to achieve the program's objectives of economic revitalization and community development.

THE PRIME ACT OF 1999

The Program for Investment in Microentrepreneurs (PRIME) Act of 1999 was included in the Gramm-Leach-Bliley Act. The legislation authorizes PRIME for four years at $15 million each year. The Small Business Administration is responsible for awarding PRIME funds to qualified organizations to: (1) provide training and technical assistance to low-income and disadvantaged entrepreneurs interested in starting or expanding their own businesses; (2) engage in capacity building activities targeted to microenterprise development organizations that serve low income and disadvantaged entrepreneurs; and (3) support research and development activities aimed at identifying and promoting entrepreneurial training and technical assistance programs that effectively serve low income and disadvantaged entrepreneurs.

The legislation authorized the program $15 million for four years from FY 2000 to FY 2003. The FY 2001 budget funded the program at its authorized level of $15 million. Although the President's budget blueprint does not mention funding for PRIME, the Committee recognizes the importance of the goals of this program and funding for its activities.

EXPORT-IMPORT BANK

With the authorization for the Export-Import (Ex-Im) Bank expiring September 30, 2001, the Committee intends to take to the Floor legislation to reauthorize the Bank as one of its top and earliest priorities.

The mission of the Export-Import Bank is to support the export of U.S. goods and services by filling financing gaps and matching officially supported foreign competition. In FY 2000, new Ex-Im Bank authorizations of $12.6 billion in loans, guarantees, and insurance supported $15.5 billion in U.S. exports. The Committee notes that the Administration has proposed in its FY 2002 budget a 25 percent reduction in funding for the Bank. The Administration explains that it intends to achieve such budgetary savings through policy changes that will focus the Bank on U.S. exporters who truly cannot access private financing, as well as through lower estimates of international risk. Such policy changes could include a combination of increased risk sharing with the private sector, higher user fees, and more stringent value-added tests.

There is no doubt that there is controversy over the Bank among some Americans and some who view Export-Import Bank programs as “corporate welfare.” Some members of the Committee are also concerned about the Ex-Im Bank’s policies of subsidizing sales of manufacturing and production equipment to countries that have either been judged to be dumping or are charged with dumping products on the U.S. market. However, since the Committee has not yet had an opportunity to review the Administration’s case for reducing the Bank’s resources, it is ill prepared to give a studied response.

Based on a preliminary analysis, the Committee is concerned that the practical effect of the Administration’s proposed cut in Export-Import Bank funding could be to hurt U.S. exporters and increase the U.S. trade deficit. The United States continues to face an unlevel playing field with respect to foreign official export promotion. For example, according to 1998 data — the latest available — the United States extends dramatically lower export credit levels to its businesses than do Japan, France, Korea, Canada, Germany and the Netherlands. Curtailing the Bank’s funding undercuts the one agency – the Export-Import Bank — whose mission it is to match that challenge to U.S. exporters.

The Committee also notes that the proposed reduction may represent “false savings” since the Bank in recent years, including both FY 1999 and FY 2000, has shown significant net income. The generated revenues are returned to the U.S.

Treasury, not the Bank. If the Bank's budget is reduced, then revenue to the Treasury is likely to decline as well. Indeed, the loss in revenue could exceed the proposed savings.

It should also be noted that the Bank has undertaken significant efforts in two areas of special concern to Congress. First, some 20 percent of total Bank financing in FY 2000 — and over 80 percent of all Bank transactions that year — provided assistance to U.S. small businesses. Second, at the urging of Congress in the 1997 authorization, the Export-Import Bank invested over $900 million in Africa in FY2000.

The Committee will examine whether Ex-Im funding should be reduced as the Administration has proposed.

ASIAN DEVELOPMENT FUND AND INTERNATIONAL FUND FOR AGRICULTURAL DEVELOPMENT

During the first session of the 107th Congress, authorizing requests are expected for U.S. contributions to the eight replenishment of the Asian Development Fund (ADF) and the fifth replenishment of the International Fund for Agriculture Development (IFAD).

The ADF, established in 1973 as a special fund of the Asian Development Bank, provides concessional loans and technical assistance to the poorest Asian countries, largely on the Indian Subcontinent and in Indochina. The IFAD provides loans and grants specifically focused on promoting agricultural and rural development in developing countries.

The Administration's preliminary FY2002 budget submission does not address specific international financial institution authorization requests, but the Committee expects to take legislation providing for ADF and IFAD funding to the Floor this year.

WORLD BANK HIPC TRUST FUND

The Committee commends the President's intention to provide funds, that along with carryover funds from 2001, fully fund the U.S. commitment to help finance Heavily Indebted Poor Country (HIPC) debt reduction by the Multilateral Development Banks (MDBs).

In order to remain current with this commitment, Congress will be required to appropriate an additional $240 million for the HIPC Trust Fund this year. It should be noted that the Committee in the 106th Congress on November 2, 1999, fully authorized the HIPC Trust Fund when it passed H.R. 1095. As this authorization illustrates, the Committee recognizes that debt relief is a priority.

WORLD BANK AIDS TRUST FUND

In 2000, Congress authorized $150 million for FY2001 and FY2002 for the establishment of a World Bank AIDS Trust Fund (Public Law 106-264). Subsequently, $20 million was provided in FY 2001 appropriations to be contributed to the fund, once it had been established. The Committee notes that the President's budget is silent on FY 2002 funding for the World Bank AIDS Trust Fund. The Committee looks forward to working with the Administration on funding for this trust fund.